# Bulk Charges for New Appointees
# Consultation on revised guidance

## Southern Water Response December 2020

Thank you for the opportunity to respond to the revised guidance on bulk charging to new appointees. We agree with many of the proposed amendments but do have several comments and clarifications for consideration.

We believe the revised guidance is a positive step and provides clearer guidance on a number of subjects.

We specifically welcome the guidance concerning the costs which are *not* avoided, namely costs recovered from developers, off-site costs and retail costs. Whilst the new guidance does not change our charging methodology, it does improve clarity for market participants. We also welcome the new guidance on leakage adjustment which should be applied on water losses between bulk meters and customer meters, although further guidance or work to standardise such leakage rates may be of benefit. Finally, we welcome the clear guidance that large user tariffs should not be applied, even where it is to the benefit of the new appointee, unless there is single large user of water as end customer(s) on the site.

**Areas of Concern**

There are three areas of revised guidance where we have concerns:

(i) **Bottom up Methodology** – We believe the bottom up approach methodology is overly complex for the benefit realised and should not be mandated within the guidance. We believe the middle down approach is a reasonable compromise to ensure a cost reflective deduction of avoided costs.

(ii) **Site specific tariffs** - We acknowledge that there is always a trade-off between specificity of charges and simplicity for users (both NAVs and incumbents). The NAV market is beginning to mature (Southern Water now have 65 NAV sites, 56 of which have been granted since 2018). With the number of NAV sites rapidly increasing, it would not be appropriate to make tariffs site specific based on minor changes to both the starting point and avoided costs. A move toward greater standardisation will be more effective in supporting the development of the market. Evidence from the business retail market suggests tariff complexity and tariff variability are a significant source of transaction costs and it would be a retrograde step to move back to effectively requiring NAVs to agree a tariff for every site (albeit from a menu).

We understand that our current approach of assuming that all premises are household (where they are not on the large user tariff) is considered beneficial and that maintaining such an approach in the short term is acceptable. However, we suggest that such an approach (where there is not a significant change to the weighted average wholesale tariff arising from a large user customer) should be acceptable in the longer term to avoid site specific bulk tariffs and annual revision for each NAV site.

(iii) **Highway Drainage** - The revised guidance states that "*Under the wholesale minus approach, these costs should already be accounted for in the wholesale charges used in the relevant starting point.*" This is different from our current approach in which we do not charge new appointees for highway drainage. This is based on the assumption that highway drainage on new developments do not connect with public sewers, and guidance previously set out by Ofwat (New appointments and variations – a consultation on Ofwat's policy relating to highway drainage, Oct 2014) which stated that "*If a new appointee's site contains public roads that do not drain to the public sewers of the existing appointee, or there are no public roads on the site, we are likely to consider that it is reasonable for the new appointee not to contribute to the highway drainage costs of the existing appointee*."

On the basis that highway drainage on new sites do not connect to the public sewer, there are no avoided highway drainage costs associated with new developments regardless of who adopts the on-site assets. Under the revised guidance, our understanding is that we should include highway drainage charges within the relevant starting point. Considering that no costs are avoided by the incumbent, the inclusion of highway charges in the starting point will increase the bulk tariff, which will not be welcomed by new appointees. Further clarification on including highway drainage charges in the relevant starting point would be beneficial.

**Summary**

In general, we support the revised guidance. Further clarification in a number of areas would further improve the guidance, and we suggest that the guidance should avoid mandating a bottom-up methodology or an approach that will create site specific tariffs for each and every bulk agreement.